

PERAC AUDIT REPORT



Woburn Contributory Retirement System

JAN. 1, 2006 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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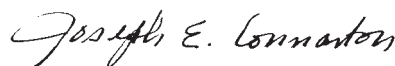
December 5, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Woburn Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Regular Compensation

There are several Collective Bargaining Agreements entered into by the governmental units that include clothing allowance payments for employees. Retirement deductions are not withheld from these payments. These are regular recurring payments which must be classified as regular earnings for retirement purposes. The Board has initiated a plan with City department heads and the Board's attorney to ensure proper payroll deductions.

Recommendation: Clothing allowances must be considered regular compensation pursuant to 840 CMR 15.03(1)(a) which states in part:

“(a) To be considered regular compensation, any compensation to an employee must: ...

3. be ordinary, normal, recurring, repeated...

4. be made pursuant to an official written policy of the employer or to a collective bargaining agreement;”

The Board must formally instruct the payroll officers to immediately begin withholding retirement deductions on clothing allowances paid to members. The rate of deduction must be the same as the member's other compensation plus the additional 2% if total annualized compensation exceeds \$30,000 for any pay period.

Board Response:

With the assistance of legal counsel, and city department heads, the Board has finalized its initial research and is drafting policies and procedures to instruct payroll officers for the City of Woburn to begin withholding retirement deductions on clothing allowances paid to members.

2. Investment Approval

The Board's follow-on investment in the Tuckerman Group/SSgA's Redevelopment and Renovation Fund was made before the PERAC Investment Unit received and approved the required paperwork such as Vendor Certification, Disclosure Statement, and Application for Exemption from Investment Restrictions.

Recommendation:

In the future, the Board must submit the proper paperwork and request regulatory approval from PERAC before investing in a fund.

Board Response:

When the Woburn Retirement Board voted its follow-on investment in the Tuckerman Group/SSgA's Redevelopment and Renovation Fund, it relied on its understanding of PERAC's investment guidelines for follow-on real estate investments. Where the Board's previous investment in the Tuckerman Group/SSgA's Multi-Family Development Program III had returned over half the original invested proceeds and where the two programs had the same management team and similar investment objectives, the Board believed the qualification of the follow-on investment did not

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

require regulatory approval. However, the Board eventually filed a written request, and in July 2007 received PERAC approval.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

		AS OF DECEMBER 31,	
		2007	2006
Net Assets Available For Benefits:			
Cash		\$1,201,121	\$2,064,497
Short Term Investments		211,297	205,257
Fixed Income Securities		12,571,133	11,689,677
Equities		22,842,934	23,655,397
Pooled Domestic Equity Funds		21,428,281	18,213,188
Pooled International Equity Funds		12,022,496	11,704,160
Pooled Domestic Fixed Income Funds		8,047,129	5,756,485
Pooled International Fixed Income Funds		0	4,928,160
Pooled Global Fixed Income Funds		3,743,728	3,499,849
Pooled Alternative Investment Funds		22,294,555	15,408,310
Pooled Real Estate Funds		5,586,890	5,076,223
PRIT Cash Fund		0	0
PRIT Core Fund		0	0
Interest Due and Accrued		133,097	167,015
Accounts Receivable		595,066	173,635
Accounts Payable		(199,596)	(187,622)
Total		<u>\$110,478,130</u>	<u>\$102,354,232</u>
Fund Balances:			
Annuity Savings Fund		\$23,961,056	\$22,949,487
Annuity Reserve Fund		7,154,090	6,746,324
Pension Fund		7,984,536	7,618,708
Military Service Fund		0	0
Expense Fund		0	0
Pension Reserve Fund		71,378,448	65,039,713
Total		<u>\$110,478,130</u>	<u>\$102,354,232</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2006)	\$21,584,269	\$6,829,309	\$7,504,022	\$0	\$0	\$56,725,249	\$92,642,848
Receipts	2,342,990	203,864	4,211,735	0	1,103,940	11,186,879	19,049,408
Interfund Transfers	(661,595)	661,595	2,872,415	0	0	(2,872,415)	0
Disbursements	(316,177)	(948,444)	(6,969,464)	0	(1,103,940)	0	(9,338,024)
Ending Balance (2006)	22,949,487	6,746,324	7,618,708	0	0	65,039,713	102,354,232
Receipts	2,408,966	208,958	4,313,615	0	1,210,564	9,642,409	17,784,513
Interfund Transfers	(1,216,996)	1,216,996	3,303,674	0	0	(3,303,674)	0
Disbursements	(180,401)	(1,018,189)	(7,251,461)	0	(1,210,564)	0	(9,660,615)
Ending Balance (2007)	<u>\$23,961,056</u>	<u>\$7,154,090</u>	<u>\$7,984,536</u>	<u>\$0</u>	<u>\$0</u>	<u>\$71,378,448</u>	<u>\$110,478,130</u>

STATEMENT OF RECEIPTS

			FOR THE PERIOD ENDING DECEMBER 31,	
			2007	2006
Annuity Savings Fund:				
Members Deductions			\$2,173,415	\$2,115,889
Transfers from Other Systems			45,420	27,025
Member Make Up Payments and Re-deposits			54,174	64,278
Member Payments from Rollovers			3,626	9,545
Investment Income Credited to Member Accounts			<u>132,333</u>	<u>126,253</u>
Sub Total			<u>2,408,966</u>	<u>2,342,990</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund			<u>208,958</u>	<u>203,864</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits			54,615 0	61,735 0
Pension Fund Appropriation			<u>4,259,000</u>	<u>4,150,000</u>
Sub Total			<u>4,313,615</u>	<u>4,211,735</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service			0	0
Investment Income Credited to the Military Service Fund			<u>0</u>	<u>0</u>
Sub Total			<u>0</u>	<u>0</u>
Expense Fund:				
Expense Fund Appropriation			0	0
Investment Income Credited to the Expense Fund			<u>1,210,564</u>	<u>1,103,940</u>
Sub Total			<u>1,210,564</u>	<u>1,103,940</u>
Pension Reserve Fund:				
Federal Grant Reimbursement			0	8,085
Pension Reserve Appropriation			0	0
Interest Not Refunded			1,778	538
Miscellaneous Income			0	20,895
Excess Investment Income			<u>9,640,631</u>	<u>11,157,361</u>
Sub Total			<u>9,642,409</u>	<u>11,186,879</u>
Total Receipts			<u>\$17,784,513</u>	<u>\$19,049,408</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006
Annuity Savings Fund:		
Refunds to Members	\$170,181	\$105,034
Transfers to Other Systems	<u>10,220</u>	<u>211,143</u>
Sub Total	<u>180,401</u>	<u>316,177</u>
Annuity Reserve Fund:		
Annuities Paid	948,462	931,531
Option B Refunds	<u>69,727</u>	<u>16,914</u>
Sub Total	<u>1,018,189</u>	<u>948,444</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	4,809,189	4,507,771
Survivorship Payments	498,666	519,740
Ordinary Disability Payments	40,670	39,185
Accidental Disability Payments	964,508	978,899
Accidental Death Payments	467,826	427,023
Section 101 Benefits	58,602	63,973
3 (8) (c) Reimbursements to Other Systems	266,625	278,802
State Reimbursable COLA's Paid	145,374	154,069
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>7,251,461</u>	<u>6,969,464</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	17,249	17,999
Salaries	218,482	207,509
Legal Expenses	10,766	17,383
Medical Expenses	0	0
Travel Expenses	7,852	15,405
Administrative Expenses	32,074	9,341
Furniture and Equipment	0	0
Management Fees	675,160	529,390
Custodial Fees	114,131	110,881
Consultant Fees	70,000	70,000
Rent Expenses	0	0
Service Contracts	60,801	122,333
Fiduciary Insurance	<u>4,049</u>	<u>3,697</u>
Sub Total	<u>1,210,564</u>	<u>1,103,940</u>
Total Disbursements	<u>\$9,660,615</u>	<u>\$9,338,024</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006
Investment Income Received From:		
Cash	\$136,019	\$84,648
Short Term Investments	8,653	7,989
Fixed Income	675,899	645,068
Equities	400,383	237,335
Pooled or Mutual Funds	1,683,362	1,327,624
Commission Recapture	<u>4,689</u>	<u>10,162</u>
Total Investment Income	<u>2,909,005</u>	<u>2,312,825</u>
Plus:		
Realized Gains	6,904,050	3,891,008
Unrealized Gains	13,152,575	13,030,013
Interest Due and Accrued - Current Year	<u>133,097</u>	<u>167,015</u>
Sub Total	<u>20,189,722</u>	<u>17,088,036</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	(11,747)	(24,113)
Realized Loss	(1,557,725)	(1,603,975)
Unrealized Loss	(10,169,755)	(4,991,673)
Interest Due and Accrued - Prior Year	<u>(167,015)</u>	<u>(189,682)</u>
Sub Total	<u>(11,906,242)</u>	<u>(6,809,443)</u>
Net Investment Income	<u>11,192,486</u>	<u>12,591,418</u>
Income Required:		
Annuity Savings Fund	132,333	126,253
Annuity Reserve Fund	208,958	203,864
Military Service Fund	0	0
Expense Fund	<u>1,210,564</u>	<u>1,103,940</u>
Total Income Required	<u>1,551,855</u>	<u>1,434,057</u>
Net Investment Income	<u>11,192,486</u>	<u>12,591,418</u>
Less: Total Income Required	<u>1,551,855</u>	<u>1,434,057</u>
Excess Income To The Pension Reserve Fund	<u>\$9,640,631</u>	<u>\$11,157,361</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$1,201,121	1.1%	100%
Short Term	211,297	0.2%	100%
Fixed Income	12,571,133	11.4%	40-80%
Equities	22,842,934	20.8%	40%
Pooled Short Term Funds	0	0.0%	
Pooled Domestic Equity Funds	21,428,281	19.5%	
Pooled International Equity Funds	12,022,496	10.9%	
Pooled Global Equity Funds	0	0.0%	
Pooled Domestic Fixed Income Funds	8,047,129	7.3%	
Pooled International Fixed Income Funds	0	0.0%	
Pooled Global Fixed Income Funds	3,743,728	3.4%	
Pooled Alternative Investment Funds	22,294,555	20.3%	5%
Pooled Real Estate Funds	5,586,890	5.1%	10%
Pooled Domestic Balanced Funds	0	0.0%	
Pooled International Balanced Funds	0	0.0%	
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	0	0.0%	
Grand Total	<u>\$109,949,563</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Woburn Retirement System was 10.62%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Woburn Retirement System averaged 13.31%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Woburn Retirement System was 10.80%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Woburn Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

September 20, 2007

16.08

Notwithstanding the provisions of any statute or regulation to the contrary, specifically including the provisions of 840 CMR 21.01, the Woburn Retirement Board is hereby granted an exemption from restrictions on investment for the purposes of investing \$3,500,000 of the Woburn Retirement System's assets in the Eaton Vance Loan Opportunities Fund, Ltd., a private placement investment.

July 18, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO US Buyout & Expansion Capital Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

July 18, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Non-US Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

July 18, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Venture Partnership Fund III, LP (the "Fund"), and

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

April 15, 2005

16.08

In accordance with PERAC Investment Guideline 99-3, the Woburn Retirement Board is authorized to invest in Charlesbank Equity Fund VI, L.P., managed by Charlesbank Capital Partners. The System has been a satisfied investor in Charlesbank Equity Fund V and has submitted the required regulatory documents.

May 11, 2001

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Woburn Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO’s ADV Form. This Regulation deals with the Priority of Transactions and an investment manager’s obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO’s to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Woburn request as it applies to 840 CMR 17.04(6).

3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner’s Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager’s Investment Advisory. Agreement with respect to the Board’s commitments to the Partnerships, PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Woburn Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

4. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement. These Regulations

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (shortsales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

Please be advised that this Supplemental Regulation as it exempts the Woburn Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Woburn Retirement Board.

January 10, 2000

19.01(6)

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Woburn Retirement System (the “System”) with a real estate investment fund, as contemplated by 840 19.01(4)-(6), known as Realty Associates Fund V Corporation (“the Fund”), and while the funds of the System are so invested the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et. seq. and 17.00 et. seq., the System’s interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualifies as a “real estate operating company” or “venture capital operating company” within the meaning of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the regulations promulgated thereunder, or the assets of the Fund otherwise would not be treated as subject to ERISA.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Woburn Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Woburn Retirement System has not submitted any supplementary membership regulations to PERAC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the city auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Gerald W. Surette

Appointed Member: A. John Flaherty Term Expires: Until Successor is Named

Elected Member: Marilou E. Lundin Term Expires: 11/8/08

Elected Member: Denis P. Devine Term Expires: 12/31/10

Appointed Member: Michael J. Gorman Term Expires: 1/1/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 Fiduciary and
Elected Members:)	\$1,000,000 Fidelity MACRS Policy
Appointed Members:)	Travelers, Arch and National Union
		Fire
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2007.

The actuarial liability for active members was	\$70,907,179
The actuarial liability for retired and inactive members was	<u>61,526,054</u>
The total actuarial liability was	132,433,233
System assets as of that date were	<u>102,354,232</u>
 The unfunded actuarial liability was	 <u>\$30,079,001</u>
The ratio of system's assets to total actuarial liability was	77.3%
As of that date the total covered employee payroll was	\$24,258,365

The normal cost for employees on that date was 8.00% of payroll

The normal cost for the employer including administrative expenses was 5.20% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by year with ultimate rate of 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$102,354,232	\$132,433,233	\$30,079,001	77.3%	\$24,258,365	124.0%
1/1/2005	\$87,818,592	\$120,595,047	\$32,776,455	72.8%	\$22,623,505	144.9%
1/1/2000	\$75,960,104	\$88,762,762	\$12,802,658	85.6%	\$17,183,350	74.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	6	16	11	7	12	43	14	6	12	14
Ordinary Disability	0	0	0	1	0	0	0	1	0	0
Accidental Disability	2	1	1	2	1	1	2	1	1	1
Total Retirements	8	17	12	10	13	44	16	8	13	15
Total Retirees, Beneficiaries and Survivors	371	379	382	375	375	409	418	428	409	412
Total Active Members	492	537	593	633	668	668	663	551	580	572
Pension Payments										
Superannuation	\$2,686,175	\$2,807,580	\$2,997,585	\$3,272,143	\$3,201,930	\$4,202,909	\$4,362,183	\$4,416,510	\$4,507,771	\$4,809,189
Survivor/Beneficiary Payments	280,616	284,654	360,382	127,855	469,421	467,864	444,297	521,475	519,740	498,666
Ordinary Disability	33,115	36,239	38,029	45,276	45,489	40,311	39,363	48,836	39,185	40,670
Accidental Disability	623,454	652,069	763,288	801,895	784,482	782,524	990,721	914,447	978,899	964,508
Other	385,214	405,724	463,195	595,569	552,415	455,184	826,722	768,710	923,868	938,427
Total Payments for Year	<u>\$4,008,574</u>	<u>\$4,186,266</u>	<u>\$4,622,478</u>	<u>\$4,842,739</u>	<u>\$5,053,737</u>	<u>\$5,948,792</u>	<u>\$6,663,285</u>	<u>\$6,669,979</u>	<u>\$6,969,464</u>	<u>\$7,251,461</u>

PERAC

Five Middlesex Avenue | Suite 304

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac